

FISCAL NOTE
HB 85 - SB 63
FIRST EXTRAORDINARY SESSION

April 12, 1999

SUMMARY OF BILL:

- Repeals the Hall income tax.
- Imposes a 2.5% tax on the federal adjusted gross income of every individual.
- Authorizes a standard personal exemption of \$4,000 per individual. Every individual, except a claimed dependent, filing a state income tax return would be allowed one exemption. Taxpayers filing jointly would be allowed two exemptions. A taxpayer would be allowed a personal exemption for each claimed dependent. The bill would require a couple to file their state income tax return in whatever manner, jointly or separately, as they file their federal income tax return.
- Requires any individual who can reasonably expect to have gross income from sources other than wages of \$25,000 for such individual's taxable year to declare such anticipated income and pay the tax thereon in quarterly installments.
- Provides a taxpayer credit for income taxes accrued to another state; however, the credit could not include any accrued interest or penalties owed another state because of back taxes and the tax credit derived from income tax accrued to another state would not be allowed to exceed the income tax due in Tennessee. The credit for taxes owed to another state must be taken in the year in which they are accrued. A non-resident individual would be liable for the payment of this tax for any income the individual has received from sources within this state.
- Mandates that employers withhold 2.5% of an employee's wages paid at the same time and in the same manner as amounts are withheld for federal tax purposes.
- Requires any employer required to withhold wages to register with the Department of Revenue by July 1, 1999. Any employer who fails to register by October 1, 1999, would be subject to a penalty up to \$1,000. Any employer who would become subject to these provisions after September 1, 1999, would have 30 days to register in order to avoid the penalty.
- Requires state income tax returns to be filed by April 15 of each year.
- Provides that revenues generated under this bill would be earmarked for the General Fund.
- Appropriates a sum sufficient to defray the costs of implementing this bill. For the purposes of adoption of rules, this bill would take effect upon becoming a law.
- Provides for the purposes of employer registration and appropriation of funds to implement the provisions of this bill, the bill would take effect July 1, 1999. For all other purposes, the bill would take effect January 1, 2000.

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ESTIMATED FISCAL IMPACT:

Increase State Revenues - Net Impact - \$888,137,900 FY00
Net Impact - \$1,771,900,900 FY01

Increase State Expenditures - Dept. of Revenue
Exceeds \$3,000,000 Recurring
Exceeds \$2,000,000 One-Time

Decrease Local Govt. Revenues - \$33,187,500 FY00
\$69,000,000 FY01

Estimate assumes:

- Based on information provided by the Department of Revenue, the Comptroller's Office and 1996 federal data, taxable income of Tennessee residents would generate approximately \$1,886,900,816.
- Eliminating the Hall income tax would result in an estimated annual revenue loss of approximately \$177,000,000 in FY00 and \$184,000,000 in FY01.
- The net increase in state revenues for FY00 would be calculated as follows: $[(1,886,900,816/2) - ((177,000,000/2) * .6250)] =$ approximately \$888,137,900.
- The net increase in state revenues for FY01 would be calculated as follows: $[1,886,900,816 - (184,000,000 * .6250)] =$ approximately \$1,771,900,900.
- The increase in state expenditures is estimated to exceed \$5,000,000 for implementation of a new tax structure.
- The decrease in local government revenues for FY00 resulting from the elimination of the Hall income tax is calculated as follows: $[(177,000,000/2) * .3750] =$ \$33,187,500.
- The decrease in local government revenues for FY01 resulting from the elimination of the Hall income tax is calculated as follows: $[184,000,000 * .3750] =$ \$69,000,000.
- Hall income tax is apportioned 5/8ths to the state and 3/8ths to local governments.
- The impact for FY00 represents six months of tax collections.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



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James A. Davenport, Executive Director

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